

Exhibit WM-2

THE COMMONWEALTH OF MASSACHUSETTS

BEFORE THE

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

WESTERN MASSACHUSETTS ELECTRIC COMPANY

D. T. E. 00-40

PETITION for THE Issuance of ELECTRIC Rate Reduction Bonds

DIRECT TESTIMONY OF

RICHARD A. SODERMAN

ON BEHALF OF

WESTERN MASSACHUSETTS ELECTRIC COMPANY

April 18, 2000

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DIRECT TESTIMONY OF

RICHARD A. SODERMAN

ON BEHALF OF

WESTERN MASSACHUSETTS ELECTRIC COMPANY

I. INTRODUCTION

Q. Will you please state your name, present position, and business address?

A. My name is Richard A. Soderman. I am the Director of Regulatory Policy and Planning for Northeast Utilities Service Company ("NUSCO"). NUSCO provides centralized services to the operating companies of Northeast Utilities ("NU") System, including Western Massachusetts Electric Company ("WMECO" or the "Company"). My business address is 107 Selden Street, Berlin, Connecticut.

Q. What are your responsibilities in your current position?

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A. I have responsibility for NU system regulatory strategy related to electric industry restructuring as well as direction of a wide variety of system company regulatory proceedings.

Q. Have you previously testified before the Department?

A. Yes, I have previously testified before the Department of Telecommunications and Energy ("Department") on a number of occasions, most recently in WMECO's restructuring plan proceeding, D.T.E. 97-120.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to (a) explain the method the Company proposes to use to securitize a portion of its transition costs (such portion along with issuance and on-going transaction costs is referred to as, the "reimbursable transition costs amounts") through the issuance of electric rate reduction bonds ("RRBs") (hereinafter referred to as the "RRB Transaction") and how this method is in accordance with the Massachusetts Electric Industry Restructuring Act (the "Restructuring Act"); (b) identify and describe the specific items and related dollar amounts proposed to be securitized through the issuance of RRBs; (c) describe the reimbursable transition cost charge ("RTC Charge"), which is the mechanism through which the reimbursable transition costs amounts will be recovered; and (d) describe how WMECO has met the requirements of the Restructuring Act to the satisfaction of the Department, including mitigation, employee protections and how the RRB Transaction will result in savings, all of which will inure to the benefit of WMECO's ratepayers.

Q. Since the primary reason for implementing securitization is the savings it provides to customers, please summarize these savings.

A. As described in Section IV of this testimony and shown in Exhibit RAS-1, the total net present value of savings for customers as a result of securitizing approximately \$261 million of transition and issuance costs is estimated to be \$19 million. These savings primarily result from the difference between the Company's weighted average cost of capital and the interest rate on the RRBs.

II. COMPLIANCE WITH THE RESTRUCTURING ACT

Q. What is the statutory basis for the RRB Transaction?

A. General Laws c.164, §§ 1G and 1H, establish the statutory basis for issuing the RRBs if they will result in net savings for customers. G.L. c.164, § 1H(b)(1), (2) provides that the Department may issue a financing order (the "Financing Order") approving the securitization of transition costs through the RTC Charge.

On September 17, 1999, in D.T.E. 97-120, the Department issued an order on WMECO's restructuring plan ("Restructuring Order"). In the Restructuring Order and in subsequent orders in D.T.E. 97-120, the Department approved the collection of a transition charge ("Transition Charge") as part of WMECO's retail distribution rates. The Transition Charge is intended to recover all of WMECO's transition costs on a fully reconciling basis.

Q. Describe the requirements of the Restructuring Act that WMECO must meet in order to be eligible for securitization.

A. In order to be eligible for securitization, G.L. c.164, § 1G(d)(4) requires a company to:

(i) fully mitigate the transition costs being securitized through such means as divestiture of its non-nuclear facilities and renegotiation of existing power purchase contracts;

(ii) prove that savings to ratepayers will result from securitization;

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(iii) ensure that all savings from securitization will inure to the benefit of ratepayers;

(iv) obtain written agreements from the purchasers of its divested operations that all nonmanagerial employees that worked at those divested operations at any time during the three-month period prior to the divestiture will be offered employment by the purchaser at compensation levels no lower than the employees' prior levels; and

(v) establish an order of preference for the use of bond proceeds such that transition costs having the greatest impact on customer rates will be the first to be reduced by those proceeds.

Q. Which of the above requirements does your testimony address?

A. My testimony addresses all of the requirements in (i) through (iv) above and a portion of the requirements in (v). Mr. Shoop's testimony will address the remaining requirements in (v).

Q. Please describe how WMECO fully mitigated the transition costs it is proposing to securitize in accordance with the Restructuring Act.

A. In accordance with G.L. c.164, §§ 1G(d)(1) and 1G(d)(4)(i), WMECO has fully mitigated the transition costs it is requesting to securitize by extracting from each, for the benefit of ratepayers, all residual value remaining in the asset. WMECO has accomplished this by taking the following steps:

(i) Divestiture of its non-nuclear generation facilities in D.T.E. 99-29 and 99-74. (Net proceeds from these asset divestitures are netted against transition costs associated with nuclear generation);

(ii) Renegotiation of its two over-market power purchase contracts through buyout or buydown (one of which is contingent upon receipt of securitization proceeds) in D.T.E. 99-56 and 99-101;

(iii) Obtaining written commitments from purchasers of divested operations ensuring employment for any nonmanagerial employee at those divested operations during the three months prior to divestiture at overall compensation levels not lower than the employees' prior levels for a period of six months;

(iv) In WMECO's Restructuring Order, the DTE approved a nuclear performance-based ratemaking plan ("PBR") which sets the nuclear going-forward recoverable costs at an average peer group level and includes a capacity factor benchmark at the industry 2nd quartile. Valuation of the Company's nuclear PBR plan is estimated to offset transition costs by \$18.5 million for 2000 and 2001; and

(v) On January 6, 2000, in D.T.E. 00-11, WMECO filed an application for approval of the termination of its Vermont Yankee Nuclear Power Corporation contract. The Vermont Yankee transaction consists of the sale of the Vermont Yankee nuclear power plant to AmerGen and WMECO's buyout of its power purchase contract. WMECO owns 2.5 percent of Vermont Yankee.

By approving the Company's restructuring plan, the Department recognized that once implemented, WMECO's plan would accomplish full mitigation of its transition costs. WMECO has now fully implemented its plan.

Q. WMECO's nuclear interests will not have been sold before issuance of the RRBs. Does the Company believe this complies with the Restructuring Act?

A. Yes. Unlike its treatment of non-nuclear assets, the Restructuring Act does not require divestiture of nuclear assets prior to securitization of these assets; it only requires that the transition costs associated with those assets have been fully mitigated. WMECO has fully mitigated the costs it is seeking to securitize relating

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to its nuclear assets by virtue of the PBR plan approved by the Department, which extracts all current value from those assets by operating them for the benefit of the ratepayer. In addition, as part of this Petition, the Company has prepared a legal memorandum (Exhibit WM-5 of the Petition) which demonstrates that, pursuant to the Restructuring Act, the Company may securitize the nuclear assets before they are sold.

Q. Please explain how the order of preference to securitize transition costs complies with the Restructuring Act.

A. G.L. c.164, § 1G(d)(4)(v), requires an electric company to demonstrate "that it has established, with the approval of the department, an order of preference for use of bond proceeds such that transition costs having the greatest impact on customer rates will be the first to be reduced by those proceeds." The order of preference requirement is satisfied in two ways. First, as I explain in my testimony, the RRBs will replace higher cost debt and equity, thus reducing the carrying costs that would ultimately be payable by ratepayers. WMECO's rate of return for all unrecovered transition costs subject to a carrying charge is 12.63 percent. This is in accordance with the Restructuring Order. WMECO will securitize those transition costs having the greatest impact on customer rates. Customers will benefit as long as the carrying cost of the RRBs is less than the 12.63 percent. Second, as Mr. Shoop explains in his testimony, the Company will apply the proceeds to debt and equity in such a manner that the resulting capital structure will minimize the weighted average cost of capital of the distribution company that remains. Mr. Shoop's testimony and exhibits discuss in more detail the proposed use of securitization proceeds.

Q. How does WMECO propose to implement the provisions of the Restructuring Act requiring a periodic Department review to determine if the amount of transition costs amounts proved to be accurate?

A. G.L. c.164, § 1G(a)(2), requires the Department to review the difference, if any, between assumed reimbursable transition costs amounts and actual reimbursable transition costs amounts, not less often than once during each 18-month period from the inception date of the original Financing Order. To the extent reimbursable transition costs amounts previously included in a financing order exceed the correct amount, WMECO will provide ratepayers with a uniform rate credit through a residual value credit mechanism which would be included annually through the Transition Charge reconciliation filing.

III. SECURITIZATION SPECIFICS

Q. Please describe the transition costs proposed to be securitized by WMECO.

A. In accordance with G.L. c.164, § 1H and the Restructuring Order, WMECO seeks to securitize certain transition costs. These transition costs will then become reimbursable transition costs amounts in accordance with the Restructuring Act. Pursuant to M.G.L. c.164, § 1G(b)(1), the transition and issuance costs to be recovered through the RTC Charge are shown in Exhibit RAS-2, page 13 and include:

(i) unrecovered Millstone 2 and 3 balances incurred prior to December 31, 1995 that remain unrecovered as of July 1, 2000 (the assumed date of securitization) as approved in D.T.E. 97-120;

(ii) buydown payment and any related transaction costs of the Springfield Resource Recovery Facility Power Purchase Agreement, approved as a transition cost by the Department in D.T.E. 99-56, and the MASSPOWER buyout payment filed with the Department on November 15, 1999 in D.T.E. 99-101;

(iii) Department of Energy Decontamination and Decommissioning Costs ("DOE D&D") approved for collection as a transition cost in D.T.E. 97-120;

(iv) non-Millstone 3 net of tax debt allowance for funds used during construction

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("AFUDC") approved for collection as a transition cost in D.T.E. 97-120;

(v) unamortized loss on required debt;

(vi) refinancing expenses;

(vii) call or tender premiums; and

(viii) transaction costs.

Items (vii) and (viii) are included as estimates on Exhibit RAS-2, page 13 and will be reconciled and reported in the Issuance Advice Letter.

Q. What are the costs involved in the proposed RRB Transaction?

A. In order to implement the RRB Transaction, WMECO will incur issuance and ongoing transaction costs, as described in more detail in Mr. Englander's testimony and exhibits. These include, but are not limited to, the costs of issuing, servicing and retiring RRBs. WMECO is seeking recovery, as provided in G.L. c.164, § 1H(a), of the transaction costs associated with the RRB Transaction and the ability to securitize and recover such costs as transition property that can be funded through RRBs.

Q. What is WMECO's current estimate of the principal balance of RRBs proposed to be issued?

A. WMECO currently estimates the initial principal amount of RRBs to be issued to be approximately \$261 million. This amount will be subject to adjustment based on the actual transaction costs, any additional transition costs arising in connection with the Company's asset divestitures, prevailing market conditions, input from rating agencies, state agencies, tax authorities and underwriters, or changes in the proposed RRB Transaction not currently anticipated by WMECO. The currently estimated amount includes approximately \$253.5 million of transition costs described above and approximately \$6.5 million of transaction costs, including call premiums. WMECO proposes to finalize the principal amount of the RRBs in the Issuance Advice Letter.

Q. Why is the proposed level of securitization for Millstone 2 and 3 appropriate?

A. The proposed level of securitization for Millstone 2 and 3 has been adjusted to reflect the fact that Millstone 2 and 3 have not been sold. WMECO has reduced the amount of Millstone 2 and 3 transition costs being securitized by approximately \$30 million which represents the anticipated market value of the plants upon sale.

Q. What is the basis of the potential market value allowance?

A. In the Restructuring Order, the Department accepted WMECO's plan to divest its nuclear assets in the near term as part of the auction conducted for WMECO's affiliate, CL&P. As previously indicated, that auction is scheduled to occur during 2000, with a proposed sale closing in 2001.

Unlike the non-nuclear asset sale market, nuclear plant sales have been relatively few and the sale prices have been small fractions of their net book value. The Connecticut restructuring legislation (Public Act 98-28) requires that the Connecticut Department of Public Utility Control ("CT DPUC") undertake an evaluation of the value of Millstone 2 and 3 in the setting of minimum bid prices. Based on an independent valuation, the CT DPUC concluded that the total market value for Millstone 2 and 3 is approximately \$235 million. WMECO's share of this price based on its ownership percentage is approximately \$32 million. WMECO believes that the CT DPUC valuation establishes a reasonable market value for the Millstone 2 and 3 assets. A copy of the relevant section of the CT DPUC order establishing the market value is attached as Exhibit RAS-4.

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To facilitate approval of its securitization application, WMECO has removed the full amount of this potential market value, \$32 million, plus an additional \$10 million from what it proposes to securitize.

Q. How has the Company proposed to reflect the offset to transition costs from the net proceeds of its non-nuclear plant sales?

A. Consistent with the Restructuring Act, WMECO has used the net proceeds from the non-nuclear plant sales to reduce the level of nuclear assets that are securitized.

IV. REIMBURSABLE TRANSITION COST CHARGE

Q. When securitized, how will the reimbursable transition costs amounts be recovered?

A. As discussed below and in Mr. Englander's testimony, the reimbursable transition costs amounts will be recovered through the RTC Charge, which is a portion of the Transition Charge. The right to recover the RTC Charge will constitute the transition property. The transition property represents the right to collect the RTC Charge as a separate property right that includes all right, title, and interest in and to all revenues, collections, claims, payments, money or proceeds of, or arising from, the RTC Charge.

The RTC Charge will be irrevocable and non-bypassable. Any current or future retail WMECO customer or ratepayer taking delivery, transmission, distribution, back-up, maintenance, emergency or any other delivery or energy service provided by WMECO will be obligated to pay the RTC Charge regardless of that customer's power provider. WMECO or any successor distribution company, third party supplier, or successor Servicer shall continue to assess and collect the RTC Charge until the RRBs are paid in full. The Servicer bills and collects the RTC Charge and remits collections in accordance with the Servicing Agreement for the benefit of the special purpose entity as described in Mr. Englander's testimony. The Transition Charge, including the RTC Charge, is a usage-based tariff on each Retail Customer's monthly bill.

Additionally, G.L. c.164, § 1G(g) allows WMECO to collect exit fees from certain Retail Customers. If any exit fees are collected at some future date by WMECO, the Company will allocate a pro rata component of such exit fee to RTC Charges.

Q. How will WMECO calculate the RTC Charge?

A. The RTC Charge will be calculated and set at a level intended to result in cash collections sufficient to pay the principal and interest of the RRBs in accordance with the expected amortization schedule, together with the other costs of servicing the RRBs. These costs are described in the testimony of Mr. Englander.

Q. What factors are incorporated into WMECO's RTC Charge calculation?

A. The RTC Charge calculation is based on the following factors:

(i) outstanding principal amount of the RRBs;

(ii) annual ongoing costs associated with the RRBs as described above and paid on each debt payment date;

(iii) level debt service payments which includes increasing principal payments for each year over the 12-year expected maturity of the RRBs;

(iv) semi annual payments of principal and interest;

(v) projected kWh sales for the upcoming year;

(vi) estimated collection curves and charge-offs based on historical collections

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experience;

(vii) interest rates on the RRBs;

(viii) the period over which the RTC Charge being calculated will be billed;

(ix) overcollateralization and other sub-account funding as discussed in Mr. Englander's testimony; and

(x) working capital allowance carrying costs for ratemaking to facilitate cash servicing of the RRBs.

Q. Please describe the working capital allowance.

A. The ratemaking schedules included in my exhibits are based on the assumption that the Company's bills and cash flows are coincident. In reality, however, there is a lag between the date when service is provided and the date when the Company collects the cash. From a securitization perspective, bondholders require assurance that a sufficient amount of cash will be collected from customers and paid to bondholders every payment date. This assurance is achieved by setting the actual RTC Charge for cash remittance purposes at a level that is greater than the RTC Charge reflected in the ratemaking schedules. This requirement by the bondholders effectively reduces the amount of cash available to the Company for its non-securitized assets. Approximately 45 days after the end of the securitization period, the remaining cash will be collected and the Company will be made whole. Throughout the securitization period, however, the Company must find alternative sources to supplement the shortfall and will incur financing costs. To compensate the Company for the additional costs, a working capital allowance has been incorporated in the revenue requirement calculations. This calculation results in a RRB working capital carrying cost adjustment of \$1.9 million as calculated on Exhibit RAS-6. The level of working capital allowance will be reevaluated at the time of the Transition Charge reconciliation filings.

Q. What is the estimated initial RTC Charge?

A. Based upon the current estimated amounts and dates of the factors above, the initial RTC Charge is estimated to be approximately 0.948 cents/kWh for all classes of Retail Customers as part of the Transition Charge for each monthly billing period until the effective date of the first periodic RTC Charge adjustment. The actual initial RTC Charge may be higher or lower depending on the actual coupon and initial principal balance of the RRBs, actual ongoing transaction costs, and changes in the factors described above as determined at the time of RRB pricing. WMECO requests Department approval of the method for determining the initial RTC Charge as described above, and as set forth in the Issuance Advice Letter, so that the RTC Charge set forth in the Issuance Advice Letter automatically will become effective as of such filing.

Q. Will subsequent RTC Charges be adjusted?

A. Yes. The per kWh RTC Charge applicable to all classes of Retail Customers will be subject to periodic adjustments to reflect any shortfall or excess in RTC Charge collections and to satisfy in full the RRB payments in accordance with the expected amortization schedule. The per kWh RTC Charge for all retail customers in an applicable period shall be determined in accordance with the methodology set forth in the true-up advice letters described below (and as attached as Appendix B to the proposed Appendix to the Financing Order).

Based on the factors described above, the initial RTC Charge and all subsequent RTC Charges must be calculated such that the total RTC Charges billed for any period will result in RTC Charge cash collections that are sufficient: (i) to pay the estimated ongoing transaction costs associated with the RRB during such period as described above; (ii) to make semiannual interest payments; (iii) to reduce the principal balance of the RRBs in accordance with the expected amortization schedule;

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and (iv) to pay any amounts of RRB payments not satisfied in the previous period for any reason.

Q. What are the proposed procedures for implementing RTC Charge adjustments?

A. In order to implement the RTC Charge adjustments, WMECO proposes to annually file with the Department periodic true-up advice letters ("Routine True-Up Letters") prior to each anniversary of the date of the Financing Order, or more frequently if necessary. The resulting adjustments to the RTC Charge will be effective on the first day of the succeeding calendar month, or such date as may be specified in the Routine True-Up Letter, as long as such effective date is at least fifteen days after the filing of such Routine True-Up Letter. In addition, WMECO requests Department authorization that whenever WMECO, as initial Servicer (or any successor Servicer) determines that the method used to calculate the RTC Charge adjustments requires modification to more accurately project and generate adequate revenues, a non-routine true-up letter ("Non-Routine True-Up Letter") may be filed and the resulting RTC Charge adjustment (reflecting such modification to the methodology) will be effective within sixty days after such filing. Non-Routine True-Up Letters will be subject to the review and approval of the Department.

Q. What effect will an RTC Charge adjustment have on WMECO's overall Transition Charge and the total rates?

A. WMECO's overall Transition Charge and other rates will not change as a result of an RTC Charge adjustment during the rate cap period which will last through February 2005. Once the RTC Charge is established, the other components of the Transition Charge will be adjusted so that the overall Transition Charge will remain the same as that determined within the constraints of the overall rate cap. The Transition Charge and other rates will change only when WMECO files revised tariffs with the Department. To the extent that the RTC Charge displaces recovery of other transition costs not funded with RRBs, such other costs will be deferred with a return for future recovery.

Q. Is there a cap on the level of WMECO's Transition Charge in this context?

A. Yes. WMECO proposes that a cap of 3.95 cents/kWh be established for the level of the Transition Charge. This cap has been determined by WMECO as the level expected to achieve triple-A rated RRBs in an adverse scenario called a "stress case." This stress case is used in evaluating the rating that will be given to the RRBs by rating agencies and assumes draconian adverse effects on WMECO related to sales decline and other criteria. WMECO believes that such a stress case is improbable and does not reflect the expected outcome in a more traditional adverse case scenario. As rating agencies review the transaction they will verify this rate cap. Based on currently available information the 3.95 cent rate cap appears appropriate.

In Exhibit RAS-5, WMECO compares its base case securitization scenario with an adverse case scenario. In this adverse case scenario, WMECO assumes a 5% reduction in sales in 2000 and a 1% reduction per year during 2001-2012. Additionally, WMECO escalates its standard offer rates based on the consumer price index during 2005-2012. Even under this adverse case scenario, WMECO receives full recovery as well as a margin of safety on its RTC Charge during the rate cap period.

Q. What happens if the RTC Charge needs to exceed the levels of the Transition Charge because of the overall rate cap constraint?

A. In this circumstance, WMECO would increase the Transition Charge and RTC Charge to satisfy its RTC Charge obligations and reduce its other rate components for either distribution or standard offer through a deferral of such costs for future recovery.

If, as a result of a true-up calculation, the RTC Charge would be increased above the Transition Charge then in effect, the Transition Charge will, on the effective date of the RTC Charge adjustment, be increased to the amount of the RTC Charge, as

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so adjusted, subject to the 3.95 cents/kWh cap on the Transition Charge as described above. If adjustments to the Transition Charge necessary to meet the required rate reduction in effect through December 31, 2004 would cause the Transition Charge to fall below the required RTC Charge, WMECO requests that the Department will instead, effective as of the time of the RTC Charge adjustment, adjust components of WMECO's rates and charges, other than the RTC Charge, as necessary to satisfy such rate reduction requirement. WMECO further requests that if, as a result of such adjustment, WMECO is not allowed to collect on a current basis any rate or charge that it would be allowed to collect but for the adjustment of such rate or charge required to maintain the RTC Charge, the portion of such other rate or charge that is not collected on a current basis will be deferred at the carrying charge applicable to that rate or charge that is being reduced; provided, however, that this provision for deferral of uncollected rates or charges will apply solely to adjustments required to maintain the RTC Charge as provided herein and that nothing affects the Department's legal authority to make a separate determination to adjust WMECO's rates and charges on any other basis.

Q. How will over- and under- collections be treated?

A. If at any time the RTC Charge collections exceed the amount necessary to amortize the RRBs at the level set forth in the expected amortization schedule and to provide for the payment of all ongoing transaction costs associated with the RRB Transaction, including interest, credit enhancement and fees, such excess will be held in a reserve subaccount. The amounts in the reserve subaccount and earnings thereon will be used to cover shortfalls and will serve to reduce the RTC Charge and related collections in the subsequent period until the RRBs and all associated fees and expenses are paid in full. If the available RTC Charge collections are less than the amount necessary to pay fees, expenses, interest and to amortize the RRBs to the level set forth in the expected amortization schedule, then the RTC Charge and the related collections in the subsequent period will be increased to reflect such shortfall. If after the RRBs and all associated fees and expenses are paid in full there are any amounts remaining in the reserve subaccount, that amount will be credited back to customers.

Q. Has WMECO made a forecast of its rate components, and how does the Transition Charge and the RTC Charge component fit into WMECO's overall projections of rates?

A. As shown on Exhibit RAS-5, page 1 of 2, and described earlier, WMECO has prepared a projection of its overall rate levels and its unbundled rate components using various assumptions for the period 2000 through 2012. The base case forecast increases overall rates by inflation as permitted under the Restructuring Act for the period 2000 through 2004. While all unbundled components of customer rates may be adjusted during this period for other considerations, the inflation adjustment primarily affects the Transition Charge. The inflation adjustment serves to increase the Transition Charge each year to a rate of 2.465 cents/kWh in 2004. Meanwhile the RTC Charge, which is based on billed sales, is held flat at approximately 0.9 cents/kWh causing it to be about 55% of the total Transition Charge in 2000 and to decline to 35% by 2004. This differential between the Transition Charge and the RTC Charge provides the necessary cushion needed to protect the RTC Charge from any adverse recovery issues that may arise. Thus, the proposed level of securitization can fit within WMECO's expected rate levels without constraint.

For the period 2005 through 2012, the inflationary adjustments are discontinued and the forecasted Transition Charges are provided on a cost-basis. The effect of the Transition Charge being cost-based allows the total rate to remain relatively flat (approximately 0.5% to 1.5% increase per year) without compromising the recovery of the RTC Charge. The RTC Charge continues to remain below 67% of the Transition Charge Rate with the exception of 2010 through 2012. In that period, the RTC Charge increases to under 95% by 2012 primarily because other non-securitized transition costs are projected to be fully recovered.

Q. How will the RTC Charge be reflected on a customer's bill?

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A. The RTC Charge will be a component of WMECO's overall Transition Charge, which currently appears as a separate line item on each Retail Customer's monthly bill. WMECO proposes that the following statement (or language of essentially the same import as may be approved by the Department's Consumer Division) be included in Retail Customers' monthly bills:

"Part of the transition charge we collect is owned by [name of SPE]."

Q. Please describe the carrying cost of the RRBs.

A. Based on current estimates, which are subject to changes in market conditions and rating agency and tax authority requirements, for ratemaking purposes, WMECO has assumed a carrying cost for RRBs of 7.71 percent.

V. CUSTOMER BENEFITS OF SECURITIZATION

Q. What is your current estimate of the total savings to ratepayers?

As discussed earlier, based on our estimates of (a) the carrying cost of the RRBs, (b) the amount to be securitized and (c) the discount rate, the total net present value of savings is estimated to be approximately \$19 million, as shown in Column G of Exhibit RAS-1. The actual savings will depend on the principal repayment schedule, interest rates, actual ongoing transaction costs, amount of credit enhancement, if any, and other factors which will be established at the time RRBs are priced. However, savings will result, regardless of the amount of approved transition costs that are securitized or the final initial principal balance of RRBs issued, so long as the carrying cost of the RRBs plus transaction costs and call premiums is less than WMECO's rate of return of 12.63 percent.

Q. Please describe the methodology for determining savings that will result from the RRB Transaction.

A. The methodology for determining savings that result from the RRB Transaction is based on comparing the Company's transition cost under two scenarios:

No securitization of transition costs with traditional carrying costs applied (Exhibit RAS-3); and

A securitization scenario which assumes that approximately \$261 million is funded with rate reduction bonds (Exhibit RAS-2).

In the first scenario, the transition costs that would have been securitized continue to earn a carrying charge at 12.63 percent, which is the Company's allowed rate of return under the Restructuring Order. This scenario does not include the call premiums and transaction costs that are included in the securitization scenario because they would not have been incurred. In the securitization scenario, the reimbursable transition costs (including call premiums and transaction costs) are charged an RRB carrying cost of 7.71 percent. The difference between these two scenarios, on a net present value basis over the life of the RRBs, results in a savings of \$19 million.

Q. Please describe how securitization will result in lower Transition Charges for WMECO's customers than would otherwise be required if securitization did not occur.

A. The savings shown on Column G of Exhibit RAS-1 will flow to WMECO's customers and will be reflected in lower Transition Charges.

Q. How will the RRB Transaction benefit WMECO's ratepayers?

A. G.L. c. 164, § 1G(d)(4) requires an electric company seeking to securitize its transition costs to prove to the satisfaction of the Department that savings to ratepayers will result and that such savings inure to the benefit of ratepayers. In addition, G.L. c. 164, § 1H(b)(2), requires the Department to find that the RRB Transaction will result in a reduction to rates that an electric company's ratepayers would have paid if a financing order were not adopted.

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As shown in Exhibit RAS-1, the RRB Transaction will result in net present value savings for WMECO's ratepayers by reducing the carrying charge applicable to the transition costs securitized. All such savings will inure to the benefit of the ratepayers. This results in a lower Transition Charge paid by WMECO's Retail Customers than if the RRB Transaction did not take place. Therefore, WMECO asks the Department to find that the proposed transaction results in ratepayer savings in accordance with G. L. c.164, § 1G(d)(4) and, thus, is in the public interest.

Q. How will you confirm that savings will inure to ratepayers as a result of the issuance of RRBs?

A. To confirm the savings to ratepayers, WMECO will file with the Department the Issuance Advice Letter prior to the issuance of RRB's. This filing shall include a savings calculation in accordance with the methodology described above indicating that, based on the actual structure and pricing terms, the RRB Transaction is expected to result in net present value savings and such savings will inure to the benefit of WMECO's customers.

Q. What is the impact of any uniform rate credit on the right of WMECO, or any successor servicers of the transition property, to collect RTC Charges in amounts necessary to satisfy the RRB payments for the upcoming year?

A. As provided in G.L. c.164, § 1G(a)(2), any uniform rate credit resulting from a periodic Department review will not diminish the right of the seller, or any successor servicer of the transition property, to collect RTC Charges in an amount equal to the RRB-related required amounts for the upcoming year as they become due. This provision protects the status of the transfer of the transition property as a true sale (as described in Mr. Englander's testimony) and will not reduce or impair the value of the transition property.

Q. When do you wish to obtain a financing order from the Department?

A. Pursuant to G.L. c.164, § 1H(b)(5), WMECO requests approval of the Petition and issuance of a Financing Order as soon as possible.

Q. Does this complete your testimony?

A. Yes, it does.